

# Construction Talk with an Expert



Jim Wood is the Director of the Bureau of Economic and Business Research at the University of Utah. One of the activities undertaken by the Bureau is to monitor construction-permitting activity in Utah—both residential and nonresidential. Jim has been following the Utah housing market for over 30 years, so he is considered an expert and a valuable source of information regarding Utah's construction environment. I had the pleasure of interviewing Jim recently regarding the current state of construction activity in Utah.

**Your bureau monitors construction permitting in Utah. How did this come about, and how did you develop close personal contacts with many of Utah's contractors and developers?** Our bureau has been gathering this permit data for over 50 years, at first fulfilling a contract with a private firm, but now we do it with our own resources. Over the years of gaining knowledge on this subject, I had been asked to do speeches and commentaries within the business community, and through these activities reciprocal relationships were built with local contractors and builders. Contractors understand my purpose for asking questions, and they feel free to share their insights.

**What is the current state of the Utah construction environment?** Construction in Utah is booming right now, almost like never before. Residential activity has been strong for many years, but within the past two years, nonresidential construction has also surged. It's not uncommon for nonresidential activity to lag behind residential booms. The current one having begun in the early 2000s. But now nonresidential is also in high gear. And this nonresidential boom has the potential to last for several years. There are big projects underway that are multi-

year projects, and we haven't yet seen the start of the huge LDS Church project downtown and other office buildings. Power plants are proposed, warehouses, industrial buildings; on and on it goes.

Residential construction has been phenomenal, especially over the past two years. That growth has been so surprising! We broke every previous record in 2004, and then 2005 comes in with even higher permit valuation. We may not go higher in 2006, but the amount of activity that will occur will still be significant, and shouldn't be construed as a slowing in the marketplace. I still anticipate it being historically high. Sound fundamentals are in place in Utah for the residential picture to remain vibrant and at high levels.

**Utah housing starts are the highest ever, but wouldn't that be expected as your population base grows?** Yes. I have looked at this issue and largely feel that the housing growth that is going on is not out of proportion with the current population demand. I have looked at the Utah market since 1970 and found that, on average, the number of new homes built each year is around 2.8% of the number of existing homes. Last year the new additions were 3.1% of the existing home count. That's above average, but not by much. In contrast, in the late 1970s, new housing starts were 5.2% of the existing home count, signaling speculative building. Shortly thereafter came a sharp slowdown in new home construction, hurting the industry. I currently don't see overbuilding in place.

**So speculative home buying is not a problem in Utah?** Generally, no. And as a consequence, Utah's home prices have not run up out of reach. Prices have risen within the past year, but that's expected, as home prices in Utah are below the national average. Housing prices move back and forth, but over time produce a 4% annual increase. The Salt Lake City area topped the list for housing price appreciation in the late 1990s, then was at the bottom of the list throughout the early 2000s. Things move back and forth, but ultimately maintain a long-term growth trend. If there is any place in the state where speculative building might be evident, it would be in the St. George area.

**Tell me about the St. George area. It is continually one of the strongest home building areas in Utah.** Home building has been very strong in that area, and anecdotal evidence suggests that speculative building is a factor there. But speculative buying and building only become a problem if the homebuyers don't show up later. Most of the developers in that area are local

developers, so the home building is not being driven by out-of-state developers. But the home buying is being driven by out-of-state buyers. It used to be that 50% of the home buying in that area came from the Wasatch Front. Now that percentage has fallen to 30%. More people from around the country are looking to buy there. Developers tell me that even though prices are up down there, they are still one of the lowest to be found in the Sunbelt.

National exposure and the internet have fueled this awakening. Large numbers of buyers are coming in from California, Arizona, and Nevada, but measurement tools show that people from every state in the nation (except Massachusetts) came to buy here last year. Many of them for retirement or future retirement purposes.

Things like this are occurring: Someone living in California bought his or her home in the 1970s for \$100,000. That home is now paid for and worth around \$800,000. So they come to St. George and buy a newer and nicer home for \$400,000, financed by the equity in their California home. They stay in California to work, and in five years will retire and move to St. George. They are called "equity refugees." Developers are anticipating a huge amount of this type of activity. Las Vegas is only an hour and a half down the road, and its entertainment is seen as a huge draw to the retirement crowd.

I've even heard of a developer proposing a 300-home subdivision in the Uintah Basin. He sold the entire 300 homes in one weekend to speculators in California and Arizona. So it can happen elsewhere.

**What are construction businesses conveying to you in terms of labor issues?** Labor issues are mainly being voiced to me on the nonresidential side of things. Residential hasn't been as loud, and is probably the result of having been in a strong building mode for several years now. They grabbed the workers and established their links when the labor market had higher unemployment. The nonresidential activity is more recent, and they are the ones trying to lure in the new labor.

**Do you get the feeling that construction activity could be even higher if workers were**

**readily available?** I haven't gotten that feeling yet. They are voicing concerns about labor, but I haven't been told by anyone yet that they have refused work because they can't get labor.

The supply of building materials is an area where shortages have been conveyed to me. Things like concrete and sheetrock supplies are tight, and there is some concern that supply rationing may develop.

**You have been observing this industry in Utah for quite some time. Are there any changes that you have seen in this industry in Utah that you would highlight or emphasize?** The construction cycle has changed. I measure a cycle from peak to peak, and I am now seeing that those cycles cover a longer period of time. In addition, the trough of the cycle isn't as deep as it used to be. This shows me less volatility in the marketplace.

**Why?** There used to be more speculative building in the market than there is today. The financial markets are the ones who have reigned in this speculation. Speculative building and indiscriminate lending in the past burned them, and they have learned their lessons from the 1970s and 80s. The financing aspect in the home market has matured.

**In your mind, what factors would be potential pitfalls for construction in Utah? What would slow or stop this construction boom?** Nothing unique to Utah would stop Utah's construction growth. The biggest roadblock would be a national phenomenon, namely, sharply rising interest rates. But there is nothing indigenous to Utah that would hurt things. In fact, the internal Utah factors suggest nothing but strength going forward, even in the face of a potential national recession. I just don't see any major problems going forward, unless I am incorrectly reading how investors and speculators work.

In the 1980s, Utah hit some housing problems. They were caused by overbuilding, overpriced real estate, high mortgage interest rates, and the collapse of part of Utah's industrial base (the raw materials industry). I see none of those negative factors in the present market. 📍



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